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UN

SUBJECT: UNIDO: POTENTIAL PARTNER ON CLIMATE CHANGE, BUT REFORMS
INCOMPLETE

REF: STATE 122077

SUMMARY

11. (U) The UN Industrial Development Organization (UNIDO) has implemented a substantial reform over the last decade that has improved its efficiency and relevance, making it a potential partner for the U.S. on issues like climate change and energy as well as a useful exemplar for the reform of other multilateral organizations. Although the reform process is not yet complete, UNIDO's reforms have instilled a culture of accountability and innovation, eliminated duplication with other UN programs, overhauled its operations and personnel practices, and allowed it to take a leading role in coordinating UN services in the field, according to an independent assessment by the British government. UNIDO's goal of promoting natural resource management and sustainable energy strategies for industry in developing countries makes it a potentially useful partner on U.S. climate change initiatives. The organization still faces many challenges, however, including a weak field presence and incomplete decentralization that hinder delivery of services at the country level. Some members see UNIDO as marginally effective and are wary of mandate creep as the organization gets involved in the response to the global food crisis. We also worry that zeal for reform may ebb after the tenure of the current dynamic Director General, Kandeh Yumkellah. End Summary.

Bloat and Crisis

12. (U) UNIDO was created in 1966 and became a specialized agency in 1985, acting as the central coordinating body for industrial activities within the UN system. UNIDO's vague mandate and weak management structures led to a proliferation of projects, many of which overlapped those of other UN agencies and programs, like the UN Development Program, with impacts that were difficult to determine. By the mid-1990s, perceived inefficiency and sprawling mandates led several major contributors to quit UNIDO. Australia, Canada, and the U.S. withdrew between 1993 and 1997 -- and Germany and the U.K. threatened to leave -- criticizing UNIDO's lack of focus and unwillingness to promote private sector development.

13. (U) In the wake of a one-third reduction in staff, a 20 percent decline in its program budget, and member state concerns about its relevancy, UNIDO embarked on a "big bang" reform, drafting a business plan in 1997 to focus its work and streamline the

organization. The plan reflected the desire of member states to enable UNIDO to carry out high-priority activities within a tightened budget, and the organization reduced or discontinued hundreds of programs. By 2001, UNIDO had reduced the number of stand-alone projects from more than 1,000 to 250.

UNIDO Remakes Itself,
But Reforms Are Incomplete

14. (U) Since 1997, UNIDO has refocused its programs on small and medium enterprises (SMEs), where it considers itself to have the greatest comparative advantage, embraced market-based solutions, and forged partnerships with other UN bodies and the private sector, increasing efficiency and responsiveness to the development needs of the poorest countries. A second wave of reform begun in 2004 refined UNIDO's programmatic focus by replacing more than a dozen work modules with three thematic priorities: poverty reduction, trade capacity-building, and environment and energy. The UK Department for International Development (DFID) in an independent assessment in 2005 ranked UNIDO second out of 23 international organizations on developing effective partnerships.

-- UNIDO created programs in 2007 to improve entrepreneurial, technical, and organizational skills of women and youth in rural areas, according to its annual report.

-- The organization partnered with Microsoft in 2007 to provide low-cost computers to small businesses in sub-Saharan Africa, according to several technology-focused websites.

-- UNIDO has become a leading agency in the eight "One UN" pilot

programs designed to streamline delivery of UN services in the field. One Western diplomat called UNIDO the only UN body that was genuinely following up on the "One UN" recommendations. In 2007, for example, it led an interagency working group in the production of a trade-capacity building resource guide.

15. (U) UNIDO also has tackled an array of management reforms, improving efficiency and accountability. It overhauled accounting, procurement, property management, training, recruitment, and support services practices, according to a DFID study in 2005 and UNIDO's 2007 annual report. UNIDO has met several management objectives of the UN Transparency and Accountability Initiative (UNTAI), such as creating an independent oversight function and increasing public access to program and budget information (see paragraph 20). The introduction of frequent reporting and evaluation has increased accountability and made middle managers stakeholders in the reform process.

-- The DFID assessment in 2005 ranked UNIDO fourth out of 23 multilateral institutions on internal performance.

-- A recruitment drive since 2005 has reduced the field vacancy rate from about 45 percent to 12 percent, according to UNIDO's 2007 annual report.

16. (U) Some of our partners who are members of UNIDO caution that the reforms are incomplete, and the "new UNIDO" - centered around the DG and his management team - has not yet vanquished the "old UNIDO." UNIDO has had difficulty decentralizing management to the field, mainly because of the reluctance of qualified staff to serve away from headquarters, according to UNIDO officials. Many now-senior officials joined UNIDO before the introduction of the current field mobility policy, expecting to serve only in Vienna. DFID ranked UNIDO only 11th out of 23 multilateral institutions on its ability to achieve results in the field, in part because of the agency's overly centralized management structure.

UNIDO's Priorities,
Budget and Staffing

¶17. (U) A key element of UNIDO's reform was to identify its niche and avoid overlapping with other UN programs. UNIDO is the only organization in the United Nations system mandated to promote economic growth and poverty reduction through manufacturing and has the largest portfolio of trade capacity building projects in the UN system. UNIDO promotes market-based approaches to improve living standards in developing countries, prioritizing growth in small and medium enterprises (SMEs), which it regards the key generator of wealth in most developing countries. UNIDO experts, for example, provide technical assistance on industrial standardization which helps SMEs compete in global markets.

¶18. (U) UNIDO is the lead agency in the implementation of major environmental agreements, such as the Montreal Protocol for the elimination of ozone depleting substances (ODS) and the Stockholm Convention for the elimination of persistent organic pollutants (POPs), which have key industrial components, and plays a leading role in the development of sustainable energy by improving industrial energy efficiency and promoting renewable energy. UNIDO's comparative advantage in these areas derives from its technical and policy expertise in helping countries implement alternative industrial production methods.

¶19. (U) For 2008-09, UNIDO has an annual budget of approximately Euro 190 million, including Euro 77 million for the regular budget, Euro 11 million for operational costs, and approximately Euro 102 million in voluntary contributions. UNIDO implemented technical assistance activities in the amount of \$117 million in 2007. Montreal Protocol activities accounted for 24 percent, the Industrial Development Fund 17 percent, and the Global Environmental Facility 14 percent, with most of the remainder allocated to third party-financed trust funds. Of the \$92 million in regionally-allocated technical assistance, Africa received 37 percent, Asia-Pacific states 31 percent, Latin American and Caribbean states 11 percent, and Europe-NIS 9 percent.

¶110. (U) UNIDO, as of December 2007, employs 651 regular staff members, including eight Americans who were hired before the U.S. withdrawal, and draws on the services of some 2,800 international and national experts, roughly half from developing countries, who work on projects throughout the world.

USG Collaboration
with UNIDO Projects

¶11. (U) The USG is involved with several UNIDO projects on a collaborative basis. The Department of Energy is active in UNIDO's Cleaner Production programs, for example, and the Environmental Protection Agency participates in UNIDO's program to reduce mercury use in artisanal gold mining, through the UNEP Global Mercury Partnership. USG activities are typically complementary to those of UNIDO, and the collaboration does not involve the transfer of funds between the USG and UNIDO.

Major Donors Largely
Favorable, But With Caveats

¶12. (U) Key donor countries in Vienna generally regard UNIDO as an effective and well-run organization, following its successful reforms and the dynamism of the new management team. They are largely satisfied with the focus of UNIDO's programs and activities, but in discussions with several Vienna-based diplomats, some expressed concern about the need for more management reforms and the organization's drift into new areas beyond its mandate.

¶13. (U) Italy regards UNIDO very highly and is one of the top voluntary donors to the organization. The Italians praised UNIDO's objective evaluation methods, its interagency coordination, innovative partnerships, and its work as an implementing agency of the Global Environment Facility (GEF). UNIDO is one of the best UN agencies in collecting funds in the field, particularly from the European Commission, suggesting that it is working in the right

direction, according to a Vienna-based Italian diplomat.

¶14. (U) France believes that UNIDO's strengths are its technical expertise, particularly in energy and standardization, and notes that it is well-regarded by developing countries. Italy and Switzerland are deeply involved with UNIDO, as are Spain and Turkey. Several other countries, including Ireland, Norway, Sweden, and Russia, are considering deepening their relationships with UNIDO, according to Vienna-based diplomats who cover the organization.

¶15. (U) Japan approves of UNIDO's work and is especially interested in developing youth employment, but as the biggest funder (paying 21 percent of the regular budget) Tokyo's primary focus is trying to reduce the budget, according to Vienna-based diplomats.

Lingering Concerns over
Mandate, Field Staff

¶16. (U) Several member states, despite their overall favorable view of UNIDO's management, have criticized its perceived mandate creep and the poor quality of field staff, though these concerns were characterized as minor shortcomings rather than major faults. The U.K., for example, has been unimpressed by the quality of UNIDO's field staff and noted that there was a recent case of corruption in one field office, although it considers this an isolated incident. London recently completed a reassessment of its commitments and UNIDO failed to make the list of high priority international organizations. A senior British diplomat in Vienna was decidedly sour on the organization, calling it only marginally useful, and another diplomat added that the decision to be in UNIDO was a political one not based on the organization's effectiveness. France noted to us that UNIDO lacks sufficient expertise in energy efficiency to take on proposed larger projects. Many member states consider UNIDO's new emphasis on agro-industry and the global food crisis an unwarranted departure from its core mandate that duplicates the work of the UN Food and Agricultural Organization and the World Food Program.

¶17. (U) Canada and Australia, which left the organization at the same time as the United States, currently have no plans to reassess their relationship with UNIDO, suggesting that UNIDO still has work to do to win back its harshest critics. We are working with our Canadian and Australian colleagues in Vienna to obtain more

information about their lingering concerns and conditions for reengagement with UNIDO.

Able But Limited Potential
Partner on Climate Change

¶18. (U) UNIDO is the second largest agency implementing the Montreal Protocol and probably would be a receptive partner in pursuing any post-Kyoto Protocol emission targets, based on discussions with UNIDO officials, but its focus on the least industrialized countries probably will limit its impact in the reduction of greenhouse gas emissions.

-- UNIDO's Montreal Protocol program helps enterprises phase out ozone-depleting substances by facilitating implementation of new production technologies.

-- UNIDO's work with the Kyoto Protocol's Clean Development Mechanism (CDM), a market-based system that credits developed countries for stimulating sustainable growth and emissions reductions in developing countries, focuses mainly on Africa, rather than high-emissions countries such as China and India.

-- The Cleaner Production program helps enterprises in 43 countries, mostly in Africa and Latin America, adopt new technologies to reduce

waste and pollution and cut energy consumption.

An Exemplar for
UN Reform?

¶19. (U) UNIDO's transformation offers lessons for reforming other multilateral organizations with large bureaucracies and complex mandates, such as the UN Development Program (UNDP), Food and Agriculture Organization (FAO), and the World Food Program (WFP).

-- First among these lessons is that comprehensive reform is unlikely without a serious threat to base funding. UNIDO switched from piecemeal to radical reform only after the withdrawal of several top donors, including the U.S. - action that threatened its very existence. Many of the subsequent reforms were consciously tailored to woo the U.S. back, according to a UNIDO official. (Comment: UNVIE's posture towards UNIDO remains in a strictly "listening mode." We have discouraged speculation about terms for U.S. return to the organization. End Comment.)

-- UNIDO's experience suggests that organizational transformation requires sustained effort and long-term commitment, making the vision and inspiration of the senior leadership critical to ensure the buy-in of the workforce. Kandeh Yumkellah, UNIDO's Director General since 2005, has been a charismatic and dynamic leader, willing to take risks and eschew established institutional practices, according to several diplomats. Yumkelleh is expected to serve a second term, which would keep him in office through 2013, but the workforce's fervor for additional reforms is likely to wane after his tenure.

Path to Potential
Reengagement

¶20. (SBU) Given the major strides UNIDO has made over the past decade, Mission recommends a closer and more active analysis of specific indicators that could lead to U.S. reengagement, up to and including rejoining the organization. Steps include:

-- A rigorous evaluation of the steps UNIDO has taken to modernize its governance structure. This could follow many of the standards outlined in the UN Transparency and Accountability Initiative (UNTAI) that serve as indicators of good governance, such as financial disclosure statements and public access to relevant information. UNIDO appears already to meet many UNTAI standards, but to date the organization has been left out of the assessment process (see reftel) because the U.S. is a non-member. A closer look at these fundamentals will provide a better view of how UNIDO is performing as an institution and what further reforms are

required.

-- Senior-level meetings with UNIDO to hear upper management's take on UNIDO's progress and plans for continued improvement. These meetings should be designed to evaluate the progress of UNIDO's reform efforts in the last decade, in particular the issue of overlapping mandates. While such meetings would incite rumors of U.S. reengagement, they could also spur UNIDO to further advance and institutionalize its past reforms.

-- Coordination with fellow non-members Australia and Canada to reach consensus on benchmarks for reengagement. Reengagement could be discussed in a series of working-level meetings, perhaps in concert with other Member States, such as Germany, who were critical of the organization but choose not to withdraw. Such discussions could be used as an incentive to promote further reforms.

Comment

¶21. (SBU) Today's UNIDO is not the sprawling, inefficient

organization the U.S. left a decade ago; it is leaner, more focused, and more effective, although its reform is still a work in progress.

We recommend exploring potential avenues of increased U.S. engagement with UNIDO, whose resident expertise and global deployment would act as force multipliers in the pursuit of U.S. objectives, such as entrepreneurial development and promotion of clean energy.

¶22. (SBU) A move to closer ties to UNIDO would increase U.S. influence over UN system-wide reform, because UNIDO is a key driver in efforts to streamline and integrate the delivery of UN programs in the field. Given that the U.S. left UNIDO due to mismanagement and waste, additional engagement would send a strong signal that the U.S. will reward the reform and rehabilitation of inefficient multilateral organizations, especially if coupled with a disengagement or withdrawal from mismanaged organization(s). A decision whether to rejoin UNIDO ultimately will be driven by issues that transcend our responsibilities in Vienna, however, and goes beyond the scope of this message. Regardless of that debate, however, we will continue using our dialogue with UNIDO staff to advance our goal of reform in the UN system. End Comment.

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